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Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Project 19-15, Exposure Draft

Dear Members of the Board:

I am writing to you in response to the Exposure Draft, Project 19-15 recently published by GASB. Thank you for the opportunity to respond.

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with net assets over \$180 billion. CalPERS provides retirement and health benefit services to more than 1.6 million members and 2,619 school and public employers. Led by a 13-member Board of Administration, CalPERS membership consists of over 1.1 million active and inactive members and approximately 477,000 retirees, beneficiaries, and survivors from State, school and public agencies.

CalPERS administers the California Employers' Retiree Benefit Trust (CERBT). The CERBT was established by state law as a multiple-employer trust dedicated to pre-funding of California public employers' Other Post Employment Benefits (OPEB) liabilities, in compliance with GASB Statement Number 43. The CERBT is one of the largest public employer OPEB trusts in the nation. The proposed accounting rule changes would have a significant impact on the 200 public employers that participate in the CERBT; consequently, CalPERS has a keen interest in the proposed changes.

In this exposure draft, GASB has proposed three accounting rule changes that will affect public employers that participate in the CERBT. While studying the proposed changes, CalPERS has considered the possible benefits to the quality of the financial reports of both the CERBT and of our participating employers, and considered also the likely costs to public employers of the proposed changes. Detailed below are CalPERS conclusions about each proposal and suggested actions:

Proposal 1: "An agent employer with fewer than 100 total plan members in its individual employer OPEB plan may elect to base its reported actuarial information on measurements calculated in accordance with the alternative measurement method discussed in paragraphs 33–35 of Statement 45, regardless

of the number of total plan members in the agent multiple-employer OPEB plan in which the employer participates.”

CalPERS recommends that GASB approve this proposal. We believe the proposed change properly balances compliance cost and reporting accuracy for small public employers. This proposal is both good accounting and public policy.

There is a possible consequence of the proposed change that we ask GASB to consider and to monitor in the future. The Alternative Measurement Method (AMM) approach does not require an independent review of employer plan provisions that an OPEB actuary would usually provide. There is anecdotal evidence indicating that, too often, employer staff misunderstands the provisions of the employer OPEB plans. A large multiple-employer OPEB plan such as the CERBT would not expect errors resulting from such misunderstanding to have a material effect on the plan's financial statement. The impact of employers that use AMM is likely to be very small compared to that of employers that use actuarial valuations. However, the accuracy of individual employer financial statements may be at risk.

Proposal 2: “The agent multiple-employer OPEB plan and each of its participating employers should obtain actuarial valuations as of the same actuarial valuation date.”

CalPERS recommends that GASB disapprove this proposal. Rather than approve this proposal, CalPERS suggests that GASB consider an alternative approach (described below) that would yield a comparable outcome without adverse results cited in the following discussion.

The proposed GASB change would require that data used as a valuation basis be measured on same day for all employers participating in the multiple-employer plan. The CalPERS staff analysis concludes:

1. The proposed rule change focuses on aligning the actuarial valuation date. Below we point out the adverse impact of the proposal on the value of reported information, and its implementation cost. We disagree with the proposed change for a more fundamental reason. Multiple-employer plans such as the CERBT are NOT liability risk pools. The exercise of aligning valuation dates at any level beyond the employer adds NO value to information already reported in the employer's GASB 45 disclosure, except in the instance of a liability risk pool. The employer liabilities and all other extrapolated actuarial information are measured and reported accurately at the employer level. The true source of the information addressed by this proposed rule change is the employer financial statement, not the multiple-employer plan financial statement. The CERBT GASB 43 information should maintain symmetry to the employer GASB 45 information, not vice versa.
2. The proposed change may reduce information value of the multiple-employer plan financial statement rather than increase the information value of the statement. The proposal may lower information value because it appears to make no allowance for

employers who prepare OPEB valuation reports annually. The improved information from mid-reporting period annual valuation results would be lost to the multiple-employer plan financial statement. The proposal may lower information value because it appears to make no allowance to report valuation results of employers that join the trust within a required two year reporting cycle. The OPEB valuation results of these newly contracted employers may not be included in the reported multiple-employer plan results until the two year period following the one in which the employer joined.

3. Other changes already approved by GASB, such as allowing multiple actuarial cost methods (e.g., normal cost, projected unit credit) and broad latitude granted in regard to OPEB actuarial assumptions have a much greater, mostly adverse, impact on the information value of multiple-employer plan financial statements. The value of liability information now reported through multiple-employer trusts is greatly impaired. The proposed rule change does nothing to remedy that impairment.
4. The proposal will impose a significant one-time employer compliance cost during the most constrained spending period for California public employers since the Great Depression. CalPERS staff examined the impact of the proposed change on the 200 employers in the CERBT trust and found that 70 percent would have to get a new OPEB valuation sooner than anticipated under the current accounting standard. Moreover, the proposal may engender a "boom/bust" cycle in the small sector of consulting actuarial firms that provide OPEB services to public employers. A biennial reporting cycle for large multiple-employer plans (such as the CERBT) that requires a single valuation date will engender cycles of high and low service demands. These cycles may adversely impact OPEB consulting actuaries and may increase employer compliance costs further. In our view, these adverse impacts on employers and on service providers are unnecessary and unproductive.

For these reasons, CalPERS recommends that GASB disapprove this proposal.

CalPERS suggests that GASB consider an alternative approach described below. The proposed accounting rule change to set a single valuation date in order to align the extrapolated valuation results (e.g., present value of future benefits, liability, etc.) can be achieved without the risk of lowering the information value of the plan, and without imposing higher compliance cost on employers. Extrapolated valuation results can be aligned to the same period without assigning a single valuation date for all employers in the multiple-employer trust. All qualified actuaries are able to deliver such results. For example, one employer could have a valuation date of December 31, 2008 while another employer can have a valuation date of June 30, 2008. Both employers can report present value of future benefits and other extrapolated valuation results for the same date (e.g., June 30, 2009).

Proposal 3: “The provisions of this Statement are effective for actuarial valuations first reported in OPEB plan or employer financial statements for periods beginning after June 15, 2010. Earlier application of this Statement is encouraged.”

CalPERS recommends that, if approved, Proposal 1 (“an agent employer with fewer than 100 covered lives that joins a multiple-employer trust may use the AMM to calculate OPEB liabilities”) should be implemented as soon as possible.

CalPERS recommends that, if approved, Proposal 2 (“The agent multiple-employer OPEB plan and each of its participating employers should obtain actuarial valuations as of the same actuarial valuation date”) implementation would be deferred until at least after June 15, 2012, and later if possible. CalPERS staff analysis concludes:

1. As reported above, the proposed implementation date would cause 70 percent of the employers who currently pre-fund OPEB liabilities through the CERBT to obtain new actuarial valuations prematurely. Such an impact would impose a heavy compliance cost on employers during a time when funding is scarce.
2. It is unlikely that the small sector of consulting actuaries who provide OPEB valuation services to California public employers could absorb the workload increase or resist raising costs to employers.
3. The proposed date does not take into account that many employers required to comply with GASB 45 in phase 3 of implementation will obtain OPEB actuarial valuations immediately prior to June 15, 2010. These valuations will have to be replaced in order to comply with the proposed accounting rule effective date.
4. Developing the data to provide a basis for an abruptly imposed valuation may uncover unanticipated obstacles. For example, CalPERS is preparing to implement an upgrade to its entire business information system immediately prior to the proposed implementation date. CalPERS is the source of demographic OPEB actuarial valuation data to hundreds of California public employers. CalPERS staff is not confident that CalPERS would be able to deliver data to those employers in a timely manner to support such an abrupt implementation.

At the very least, it seems the effective date of the proposed change should be timed to synchronize with the biennial reporting cycle required of multiple-employer trusts. CalPERS staff suggest that the earliest implementation date to consider would be June 15, 2012 in order to give all employers a reasonable period during which to reach a single valuation date. A later implementation date would be more desirable.

Moreover, in order to minimize implementation costs, CalPERS recommends that, during the implementation period, the GASB allow adversely impacted employers and multiple-employer plans to report extrapolated actuarial results on a three year period, not the two year period of the biennial valuation cycle required for multiple-employer plans. Specifically, if the interaction of the employer’s current valuation date and the

single valuation date chosen by the multiple-employer plan would cause the employer to need more than one actuarial valuation on a two year period, then that employer (the multiple-employer plan) would be allowed to report extrapolated actuarial results on a three year period.

Thank you for receiving the CalPERS comments about the accounting rule changes proposed in the Exposure Draft (ED), Project 19- 15. We would welcome the opportunity to work with your staff to clarify the comments and proposals we have described in this letter.

In closing, CalPERS appreciates this opportunity to communicate with GASB regarding our thoughts on issues important to governments and retirees.

Sincerely,

STEPHEN W. KESSLER
Deputy Executive Officer, Operations

cc: CalPERS Board of Administration
Anne Stausboll, CEO, CalPERS